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SUBJECT: ERITREA - NO FUEL BY JULY?

REF: A. ASMARA 92 B. ASMARA 258

Classified By: Ambassador Ronald K. McMullen for Reason 1.4 (d)

¶1. (C/NF) Summary: Eritrea has fuel reserves of only one month, and poor prospects for purchasing more, according to Total's Managing Director in Eritrea. Eritrea's Kuwaiti suppliers reportedly have not been paid since December 2007, and will not supply more fuel until the government makes payment, which it lacks the hard currency to do. Lack of fuel could potentially lead to domestic unrest and impact Post operations. End Summary.

THE GSE OVERCHARGES ITS GAS CREDIT CARD

¶2. (C/NF) Total's Managing Director in Eritrea, Mohammed Gbepo (protect), told Emboff on June 2 that Eritrea last received fuel imports approximately 6 months ago. According to Gbepo, the Kuwaiti company refused to provide additional fuel until paid in full for the last shipment. Based on current rates of consumption, Gbepo believes Eritrea's remaining fuel stocks will last, at best, only about one month. The supplier, an unnamed Kuwaiti company, provided \$60 million of fuel, including diesel, with a 90-day grace period before payment was due. The Government of the State of Eritrea (GSE) has yet to make payment. The Petroleum Corporation of Eritrea (PCE) controls all Eritrean fuel imports, and is completely owned by Eritrea's sole political party, the People's Front for Democracy and Justice (PFDJ).

¶3. (C/NF) The head of the Commercial Bank of Eritrea recently told Gbepo that Eritrea's hard currency reserves were fully depleted, noting the GSE would have trouble scraping together even \$1 million, let alone \$60 million to make payment.

JET FUEL CONVERTED TO COOKING GAS

¶4. (C/NF) Gbepo said domestic kerosene supplies, used extensively for cooking, are nearly depleted. To meet domestic demand, Gbepo noted that Asmara International Airport's remaining jet fuel is being converted to kerosene, and jets are no longer allowed to refuel in Asmara. Eritrean Airlines and Nasair are now refueling in Dubai and Nairobi, and Egypt Air cut the number of passengers to sixty on its Cairo-Asmara-Cairo flight, in order to make the round trip without refueling. Gbepo estimates that even with this conversion, Eritrea has - at most - only one and one-half months of additional kerosene supplies.

ERITREA'S STRATEGIC RESERVE

¶5. (C/NF) Gpebo noted that the GSE maintains underground fuel stocks located off of the Massawa road which have yet to be tapped. He estimates total capacity of these stocks at around 20 million liters, but he doubts that the tanks are topped off.

¶6. (C/NF) According to Gbepo, all of Eritrea's official fuel imports are placed in Total's storage units, since the PCE does not have its own facilities. When the PCE allocates fuel, Total is told the quantity and its destination. This gives Total inside information on Eritrea's official fuel imports and utilization.

POST COMMENT AND ANALYSIS

¶7. (C/NF) Gbepo painted a very bleak picture of Eritrea's near-term fuel shortages, information that tracks with anecdotal reports from other Post sources. In light of his inside information, Post believes the GSE may well have known in December 2007 it would be unable to pay for the Kuwaiti fuel purchase, and therefore instituted the draconian austerity measures, such as cutting off fuel to UN agencies and NGOs to stretch the fuel supply as long as possible.

(Note: UN representatives informed Emboffs they must consider closing Eritrean operations by the first week of August if the GSE does not resume diesel deliveries. End Note.)

¶8. (C/NF) The GSE's economic decision-making continues to defy logic. Diesel fuel, when provided, is rationed, subsidized, and sold in Nakfa even to foreign missions and international organizations. A simple solution would seem to be to remove the subsidy and sell diesel at market prices, or at least at market prices to the foreign entities. The local population would probably not be offended by this move if it resulted in the commercial availability of diesel fuel.

¶9. (C/NF) The GSE has yet to locate a foreign benefactor willing to ameliorate this fuel shortage, despite recent high-level visits to Iran, Saudi Arabia, and elsewhere. Post believes these trips to be primarily fund-raisers, with the GSE looking for international investors and donors to help alleviate their cash and fuel shortages. If Gbepo's information is accurate, unless the regime's efforts pan out, the GSE will face severe difficulties as early as July.

¶10. (C/NF) Should diesel, now scarce, become generally unavailable, the local security situation and Post operations could deteriorate rapidly. Eritrea's electric grid runs entirely on diesel generators in Massawa. If diesel runs out, the lights would go out across Eritrea with a few exceptions -- among them notably the generator-equipped and well-lit U.S. Embassy and our Embassy properties. Post's compound contains large fuel tanks which position us better than most local entities for a fuel crisis. Post could sustain present operations on 100% generator power for two to four weeks, and critical operations and residences for approximately 90 days. As Eritrea's population already faces extreme pressures, the loss of reliable electricity could lead to the release of these pressures in unpredictable ways. Post's Emergency Action Committee will closely monitor the situation for any indication of worsening in of the current fuel shortages.

MCMULLEN